

OFFICE OF THE CITY AUDITOR

Leslie I. Tanaka, CPA, City Auditor

POWERS, DUTIES AND FUNCTIONS

The Revised City Charter amendments, approved by the voters in the November 2002 General Election, authorized the City Council to establish the Office of the City Auditor (OCA) as a separate and independent agency to strengthen the auditing function in city government and ensure that the agencies and programs of the City are held to the highest standard of accountability to the public (Sec. 3-501.1, RCH). The charter affords the auditor the independence to initiate work under the auditor's authority and consider requests for work from the council. In addition, and for the purpose of carrying out an audit, the charter empowers the auditor to have full, free and unrestricted access to any city officer or employee and grants authorization to examine and inspect any record of any agency or operation of the City.

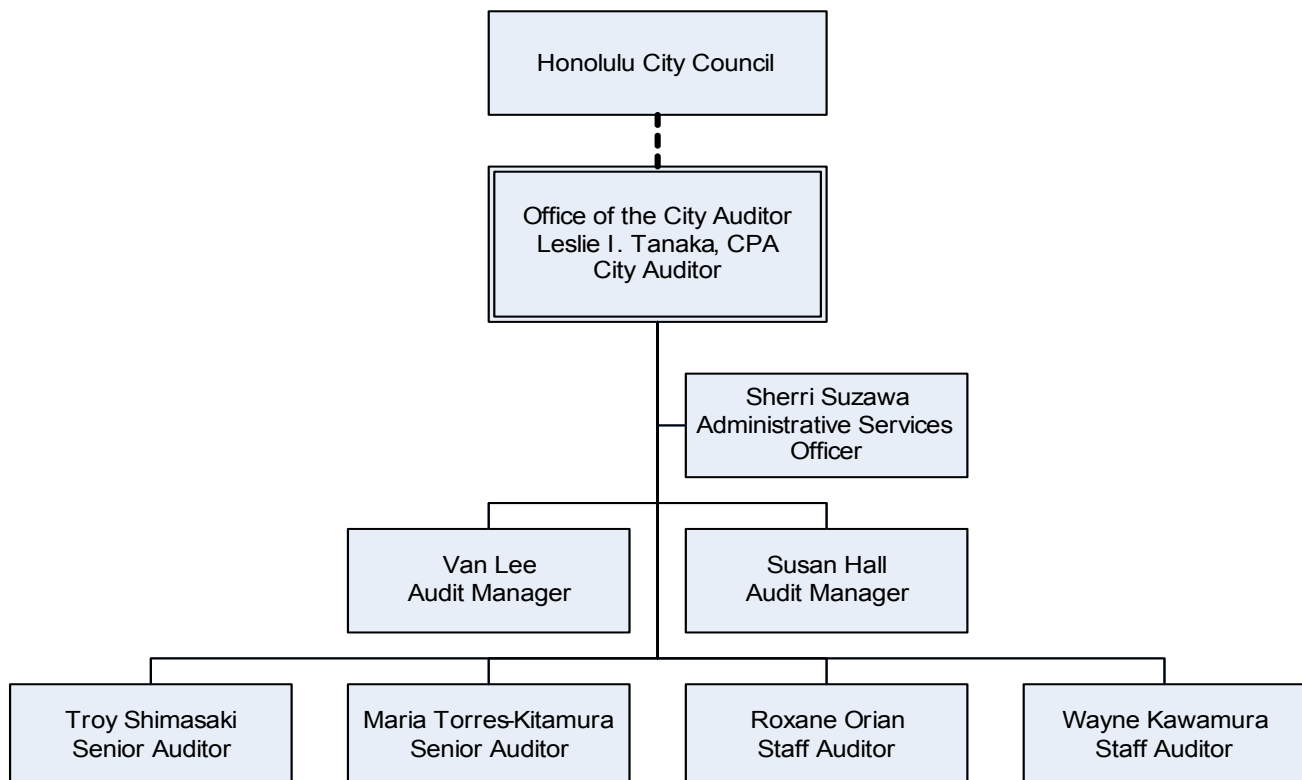
The charter further provides that the City Auditor conduct or cause to be conducted: 1) the annual financial audit of the City, 2) performance audits of the funds, programs and operations of any agency or operation of the City, and 3) follow-up audits and monitoring of compliance with audit recommendations by audited entities. All audits are conducted in accordance with government auditing standards and audit findings and recommendations are set forth in written reports of the City Auditor.

The Office of the City Auditor was created on July 1, 2003, with the appointment of Mr. Leslie Tanaka, CPA, as the City and County of Honolulu's first independent City Auditor.

OCA'S MISSION

The Office of the City Auditor's mission is to promote accountability, fiscal integrity and openness in city government. The Office of the City Auditor will examine the use of public funds, evaluate programs and activities, and provide timely, accurate and objective analyses, options and recommendations to decision makers in order to ensure that the City's resources are being used to effectively and efficiently meet the needs of the public.

OCA ORGANIZATIONAL CHART



YEAR IN REVIEW

Fiscal Year 2006-07 was a very successful year for the Office of the City Auditor. In addition to releasing five performance audits and one contract audit, the office also went through its very first peer review in August 2006 and received a clean opinion on our quality control system. The peer review team found that our office conducts its work in full compliance with generally accepted government auditing standards, and our quality control system was functioning as intended. We were also commended for developing a very solid framework for conducting audits since the office was established in 2003.

SUMMARY OF REPORTS TO COUNCIL AND MAYOR

We completed and issued five performance audit reports according to our FY2006-07 work plan. The five reports are: 1) *Audit of the City's Abandoned and Derelict Vehicle Program*, 2) *Audit of the Hanauma Bay Nature Preserve Fund*, 3) *Audit of the Tennis Complex of the Central O'ahu Regional Park*, 4) *Audit of the Honolulu Police Department Patrol Officer Staffing Practices*, and 5) *Audit of the City's Management of Unilateral Agreements in Affordable Housing*. We also continue to oversee the financial audit of the city, which resulted in findings and recommendations for the fiscal year ended June 30, 2006, by Nishihama & Kishida, CPAs, Inc., the contract auditor. All of these reports are available to the public on the Office of the City Auditor's web page (www.honolulu.gov/council/auditor).

Financial Audit of the City and County of Honolulu for FY2005-06

Contract auditor, Nishihama & Kishida, CPAs, Inc. submitted their findings and recommendations for the financial audit of the City and County of Honolulu for FY2005-06 to the City Council in March 2007. Their findings included: inadequate closure cost estimates for sufficient financial coverage for the Waimanalo Gulch landfill; insufficient subrecipient monitoring; outstanding encumbrances originating ten or more years ago; and lack of written policies and procedures that address encumbrances for conditional awards.

It was also reported that one of the three findings from the previous year's audit has been resolved, while one was partially resolved and one was still applicable in the FY2005-06 audit. In addition, two out of three findings from FY2001-02 through FY2003-04, which were reported as still applicable in the previous year's audit, were resolved in FY2005-06. The other finding for that time period was still applicable in the FY2005-06 audit.

Audit of the City's Abandoned and Derelict Vehicle Program



Boxes of unrecorded abandoned and derelict vehicle reports are piled on the floor of motor vehicle control's trailer in Kapahulu.

This audit was conducted pursuant to Resolution 06-003, *Requesting the City Auditor to Audit the City's Abandoned and Derelict Vehicles Program*. The audit examined the effectiveness and efficiency of the city's abandoned and derelict vehicle program, assessed the adequacy of the city's contracts with a private tow contractor, and offered recommendations to improve abandoned and derelict vehicle operations and service to O'ahu's communities and residents. We found that the City's Motor Vehicle Control Section does not consistently tow abandoned vehicles from city streets within 14 work days, but is able to tow derelict vehicles within 15 work days. We also found that the lack of coordination between the police department and motor vehicle control contributes to process inefficiencies and that motor vehicle control did not actively monitor its contracts or consistently evaluate its contractor for compliance.

We recommended that the director of the Customer Services Department ensure that the Motor Vehicle Control Section promptly and accurately document all complaints of abandoned and derelict vehicles for tracking and disposition purposes and ensure that abandoned and derelict vehicles are towed within 14 and 15 work days, respectively. We also recommended that the department continue to prioritize the work with the information technology department to automate abandoned and derelict vehicle processing; implement a web-based program for abandoned and derelict vehicle complaint processing, auctions, and vehicle disposal; and implement a web-based program for the public to obtain the status of suspicious or potential abandoned and derelict vehicles in their neighborhood. We further recommended that the department eliminate duplicate vehicle investigations by coordinating with the police department; consistently enforce all contract terms and provisions contained in abandoned and derelict vehicle contracts; implement regular monitoring, evaluation and feedback with the tow contractor; and include stronger hazardous waste disposal provisions in future abandoned and derelict vehicle contracts. Finally, we recommended that the Chief of Police of the Honolulu Police Department work with the customer services and information technology departments and consider implementing an electronic abandoned vehicle report on officers' laptop computers that is compatible with motor vehicle control's new system, and can be electronically transmitted to motor vehicle control to expedite the removal of abandoned vehicles; and coordinate with customer

services on work tasks and standards for the impending volunteer policing program's abandoned and derelict vehicle investigations.

Audit of the Hanauma Bay Nature Preserve Fund

This audit was conducted pursuant to Resolution 04-205, *Requesting a Performance Audit of the Hanauma Bay Nature Preserve Fund*. The report focused on the revenues to the fund, expenditures against the fund and offered recommendations to improve utility of the Hanauma Bay Nature Preserve Fund. We found that the Departments of Parks and Recreation and Budget and Fiscal Services were properly accounting for fund revenues and expending program funds under the law, however they need to better coordinate their planning efforts. We also found that the Department of Parks and Recreation should improve its planning efforts in identifying current and projected needs of the preserve.

We recommended that the director of the Department of Parks and Recreation ensure that a new or updated master plan for the Hanauma Bay Nature Preserve is completed which will serve as a basis for development, budgetary elements, and identification of specific programs and items necessary to achieve the master plan objectives. We also recommended that the director assess past and projected preserve funds revenues, expenditures and fund balances; assess the adequacy of fund revenues and projected expenses in accordance with the preserve's goals and objectives; and ensure that the preserve staff is actively involved in all levels of planning. We further recommended that the director ensure that copies of the concession contracts and current detailed information relating to concession revenue gross receipts, payments and amendments to contract terms is provided to the appropriate parks department personnel for budget planning and program evaluation purposes. Finally, we recommended that the Department of Budget and Fiscal Services ensure that copies of various documents and reports containing information on the preserve fund are provided to the appropriate parks department personnel for preserve planning, evaluation and budgeting purposes.



Photo of the west facing view of the Hanauma Bay Nature Preserve.

Audit of the Tennis Complex of the Central O'ahu Regional Park



Photo of the tennis complex at the Central O'ahu Regional Park.

This audit was initiated by the city auditor pursuant to the Revised Charter of Honolulu. This audit was conducted to determine the city's total cost to construct the tennis complex at the Central O'ahu Regional Park and related management issues of the Department of Design and Construction. We found that the cost to construct the tennis complex could not be completely determined, however project costs would substantially exceed original estimates by \$2.5 million when

the construction contract is closed. We also found that the Department of Design and Construction's poor management and weak controls throughout design and construction underlies the project's significant cost overruns, and its failure to follow key legal reporting requirements concealed the project's increasing costs from council oversight.

We recommended that the director of the Department of Design and Construction resume negotiations with the construction contractor to close the contract and lift encumbrances on remaining construction funds; prepare a complete and accurate accounting of the city's total cost of the tennis complex when the construction contract is closed out; assess and improve existing policies to strengthen cost control throughout the implementation of all phases of the city's capital projects; require adherence to the contracted scope work and approved final project design as a prerequisite to proceeding to construction bidding; develop policies and procedures for establishing prudent and justifiable use of construction management services; and comply with legal and administrative requirements for reporting this project's change orders and transfers of funds to city council. The director should also consider additional criteria to control unnecessary change order costs; ensure that the department complies with administrative construction contract contingency limits; ensure that contractual obligations are enforced; cease commingling resources and funds among separate project phases; and fully represent project costs in capital budget requests to council. The managing director should consider solutions to resolve the department's misuse of after-the-fact change order practices and ensure that change work proceeds only after formal approval. We recommended that the director of budget and fiscal services should submit to council all required change order and delay reports, and ensure that all missing design consultant contract payment records are located and made available in the official procurement files for review.

Audit of the Honolulu Police Department Patrol Officer Staffing Practices

This audit was conducted pursuant to the authority of the Office of the City Auditor to self-initiate audits. The city auditor determined that this audit was warranted due to longstanding concerns about the Honolulu Police Department's (HPD) reported patrol officer shortages and continued aggressive recruitment from mainland police departments. We found that HPD's data collection and reporting systems fail to provide an accurate assessment of patrol officer workload; authorized patrol officer position counts appear to be within industry standards, but full staffing remains difficult due to ongoing challenges in filling position vacancies and the continued use of special assignments; and current recruitment practices and training facilities are insufficient to meet projected patrol officer staffing needs.

We recommended that the Honolulu Police Department improve workload reporting and analysis and better justify staffing needs by reinforcing the importance of workload assessment reports by continually educating and informing district commanders of the impact that it has on determining department-wide staffing priorities; continuously educating all police officers on the importance of documenting their activities to facilitate request for sufficient staffing; and amending the current system of reporting to capture all patrol officer activities and more accurately depict workload. We also recommended that they reinforce efforts to work toward full staffing of existing positions by increasing their ability to fill vacancies by devoting appropriate resources to recruitment; incorporating longstanding special assignments into total personnel counts to show a more accurate portrayal of staffing needs; and assessing the need for additional Human Resource Division resources to facilitate recruitment and processing new officers. Lastly, we recommended that HPD improve recruitment and training capabilities by increasing contact with applicants throughout the lengthy background review process to keep them apprised of their progress and sustain their interest; assessing the physical limitations of the current training facility and evaluating options for increasing the department's capacity to train incoming recruits; and supplementing the entry of new officers into the department by considering additional sources for new officers, such as modifying training programs to accommodate experienced police officers from other jurisdictions without requiring the same classes as new recruits.

Photo of the Ke Kula Maka'i entrance.





In 1995, the developers for The Crowne at Wailuna project in Aiea paid \$1,120,000 in in-lieu fees instead of constructing 16 affordable housing units as required by unilateral agreement. We found no evidence that the in-lieu fees collected were spent on affordable housing initiatives.

Audit of the City's Management of Unilateral Agreements in Affordable Housing

This audit was conducted pursuant to Resolution 05-285, CD1, *Requesting the City Auditor to Audit the City's Affordable Housing Program*. Since some of the issues identified in the resolution had been addressed by other government and industry groups in recent years, we chose to focus the audit on the city's administration of in-lieu fees and application of excess affordable housing credits as they directly affect the number of affordable housing units actually built. We found that the Department of Planning and Permitting's adminis-

tration of unilateral agreements for affordable housing is inadequate and their authorization and application of excess affordable housing credits lack accountability. We also found that in-lieu fee collections have not resulted in affordable housing benefits as intended.

We recommended that the Department of Planning and Permitting establish formal policies and procedures for administering unilateral agreements, including monitoring requirements; maintain a matrix or database with timely data; and initiate systematic record-keeping efforts to account for all affordable housing units constructed under unilateral agreements, as well as track all unilateral agreement ordinances, developers' annual reports, affordable housing credits, in-lieu fees, site visits, and other pertinent information. We also recommended that they amend the rules for unilateral agreements in affordable housing by establishing an in-lieu fee formula that is consistent with the goals and objectives to be established for the use of in-lieu fees, and by proposing a framework for the accrual and application of excess affordable housing credits. We further recommended that the department track affordable housing credits more closely if it plans to allow continued application of excess credits from one unilateral agreement to another; establish a procedure to document how the delivery options exercised by developers conform to general, development, or sustainable community plan provisions related to affordable housing; report verified affordable housing data in its annual report to the council as required by city ordinance; evaluate its staffing allocation for unilateral agreement monitoring; and enforce future ordinance provisions related to unilateral agreements in affordable housing. We recommended that the Honolulu City Council consider clarifying Section 6-46.2, Revised Ordinances of Honolulu (ROH), relating to the purpose of the Housing Development Special Fund by specifying whether in-lieu fees are intended for affordable housing purposes should be an option or requirement; consider clarifying Section 6-46.2, ROH, to clarify the use of in-lieu fees for affordable housing and allow alternative uses for in-lieu fees collected from developers; consider amending Section 6-46.3, ROH, to designate a city agency to monitor, plan and expend in-lieu fees collected by the city; and consider further review of the Housing Development Special Fund's expenditures.

FY2006-07 APPROPRIATIONS AND EXPENDITURES

The Office of the City Auditor was appropriated a total of \$1,031,731 in FY2006-07. Of this total, \$350,000, or 34%, was expended for the City's annual financial audit contract, which OCA oversees for the council. OCA's total appropriated operating budget was \$681,731, of which \$528,507 was expended for staff salaries and \$43,512 was expended for office operations and equipment. Approximately \$109,713 in unspent appropriations was returned back to the City Treasury at the end of the fiscal year. Most of the unspent appropriations resulted from salary savings from two additional positions that we were unable to fill due to space limitations in our current temporary office.

OCA FY2006-2007 APPLICATION OF RESOURCES

